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Melissa E. Newman
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Qwest
Spirit of Service™

Electronic Filing via ECFS

EX PARTE

April 26, 2007

Ms. Marlene H. Dortch, Secretary
Federal Communications Commission
445 12th Street. S.W.
Washington, DC 20554

RE: ***In the Matter of Federal-State Joint Board on Universal Service, High Cost Universal Service Support*, WC Docket No. 05-337; *In the Matter of Federal-State Joint Board on Universal Service,* *CC* Docket No. 96-45**

Dear Ms. Dortch:

On April 25,2007, Steve Davis, Senior Vice President of Government Affairs and Public Policy and Judy Peppler, Oregon State President, both of Qwest, met with Commissioner Ray Baurn, State Chair, Federal-State Joint Board on Universal Service, to discuss the above-referenced proceedings, including issues referenced in the attached letter of April 26,2007.

On April 26, 2007, the letter was transmitted via first-class, United States Mail to the addressees, and via electronic mail to the members of the Federal-State Joint Board on Universal Service, and to other individuals as listed below.

Pursuant to Sections 1.49(f) and 1.1206 of the FCC's rules, Qwest is submitting this *ex parte* and the attached letter to the FCC via the Electronic Comment Filing System so that both documents can be included in the record of the above-captioned proceedings.

Should you have any questions regarding this submission, please contact me using the information reflected in the letterhead.

Sincerely,

/s/ Melissa E. Newman

Attachment

Copy (including attached letter) via U.S. Mail to:
Commissioner Deborah Taylor Tate
Honorable Ray Baum

Copy (including attached letter) via e-mail to:

Chairman Kevin J. Martin (Kevin.Martin@fcc.gov)
Commissioner Deborah Taylor Tate (Deborah.Tate@fcc.gov)
Commissioner Jonathan S. Adelstein (Jonathan.Adelstein@fcc.gov)
Commissioner Michael J. Copps (Michael.Copps@fcc.gov)
Commissioner Robert M. McDowell (Robert.McDowell@fcc.gov)
Hon. Ray Baum (ray.baum@state.or.us)
Hon. Lisa Polak Edgar (lisa.edgar@psc.state.fl.us)
Hon. Larry S. Landis (llandis@urc.in.gov)
Hon. John D. Burke (jburke@psb.state.vt.us)
Hon. Billy Jack Gregg (bjgregg@cad.state.wv.us)
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April 26, 2007

Honorable Deborah Taylor Tate
Federal Chair, Federal-State Joint Board on Universal Service
Federal Communications Commission
Room 8-A204
445 12th Street, S.W.
Washington, DC 20554

Honorable Ray Baum
State Chair, Federal-State Joint Board on Universal Service
Oregon Public Utility Commission
POB 2148
Salem, OR 97308

RE: *In the Matter of Federal-State Joint Board on Universal Service, High Cost Universal Service Support,* WC Docket No. 05-337; *In the Matter of Federal-State Joint Board on Universal Service,* CC Docket No. 96-45

Dear Commissioners Tate and Baum:

As the Joint Board is considering recommendations regarding high-cost universal service support, Qwest would like to offer its perspectives on recent proposals for short-term reform of the universal service high-cost support mechanisms.[1] The common theme of these recent proposals is that the unchecked growth of the universal service high-cost fund must be contained immediately. Qwest agrees.

Qwest continues to advocate for longer-term reform of the high-cost support mechanisms as set out in its previously filed comments in several dockets pending before the Federal Communications Commission ("Commission")[2] and supports some of the proposals

[1] *See, e.g.*, Letter from David C. Bartlett and Brian K. Staihr, Embarq, to Commissioners Tate and Baum, WC Docket No. 05-337, April 12,2007; Letter from David C. Bergmann, NASUCA, to the Federal Communications Commission, CC Docket No. 96-45, April 6,2007; Letter from Robert W. Quinn, Jr., AT&T, to Commissioners Tate and Baum, WC Docket No. 05-337, March 22, 2007; Letter from Kathleen Grillo, Verizon, WC Docket No. 05-337, February 9,2007.

[2] *See, e.g.*, Qwest comments in the following dockets: *In the Matter ofFederal-State Joint Board on Universal Service,* CC Docket No. 96-45; *In the Matter of Federal-State Joint Board on Universal Service, High-Cost Universal Service Support,* CC Docket No. 96-45 and WC 05-

recommended by Embarq and Windstream, more fully explained below. In the short-term, however, it is increasingly evident that some immediate interim measures are needed to stem further growth of all the high-cost support funds.[3] Thus, Qwest supports the following interim steps to immediately check further growth of the high-cost fund: (1) placing a cap on the per-line high-cost support currently provided to all eligible telecommunications carriers ("ETCs"), and (2) placing a limit on high-cost support to wireless ETCs of one wireless connection per household.

Interim per-line caps should be placed on all of the high-cost funding mechanisms: the Non-Rural High Cost Model Support, the Rural High Cost Loop Support, Rural Local. Switching Support; Interstate Access Support, Interstate Common Line Support, Safety Net Additive Support, and Safety Vaive Support. Each cap should be implemented as a limit on support per line for each relevant area for the specific fund and study area. For example, the Non-Rural High Cost Model support is distributed in eligible study areas as support per line by wire center or other targeted basis. In this case the support per line would be frozen at the current levels in the target areas where it is available. For a rural study area receiving Rural High Cost Loop Support, the support per line for the study area would be frozen. In the case of a rural study area where the rural company has elected to further target the support within the study area, the support per line would similarly be frozen for the targeted area. This step could be immediately implemented by adopting the per line support currently in place.

Qwest's proposed cap on high-cost support provided to ETCs would immediately cease further growth of the fund due to growth in per-line support. For the last several years, there has been increasing pressure for the costs per line for rural incumbent local exchange carriers to increase as their total lines decrease. Yet, this means that not only does the high-cost support per line for rural incumbent local exchange carriers ("ILECs") increase, but so does the support to the competitive ETCs (or "CETCs") serving in the rural ILECs' territory.[4] A reasonable cap on per-line support will eliminate this irrational source of high-cost fund growth.

337, filed March 27,2006; WC Docket No. 05-337, filed October 10,2006; *In the Matter of Comprehensive Review of Universal Service Fund Management, Administration, and Oversight*, WC Docket No. 05-195, *et al.*, filed October 18, 2005.

[3] In 2001 the high-cost fund was slightly over 2.5 billion dollars. USAC, Universal Service Fund Facts – High Cost Program Data, 2000-2006 Disbursements by Calendar Year (Unaudited), http://www.usac.org/about/universal-service/fund-facts/fund-facts-high-cost-program-data.aspx#hc-program-statistics. The Universal Service Administrative Company ("USAC") projects that the high-cost fund will be in excess of 4.3 billion dollars in 2007. USAC, *Federal Universal Service Support Mechanisms Fund Size Yrojectionsjor the Second Quarter 2007*, January 31,2007, pp. 4-9.

[4] *See* Comments of Qwest Communications International, Inc., *In the Matter of the Federal-State Joint Board on Universal Service*, CC Docket No. 96-45 (filed Sept. 30,2005) at 8-9; *see also In the Matter of Federal-State Joint Board on Universal Service,* Recommended Decision, *CC*

Qwest also proposes a cap on high-cost support to wireless carriers, which would limit wireless ETC support to one line per household per wireless ETC. Therefore, under the Qwest proposal, only the primary line of a household purchasing a family plan of multiple wireless phones would be supported. Wireless ETCs would remain eligible for the same capped support per line for this primary line as are wireline ETCs.

This proposed limit would address another source of recent growth in the fund -- wireless carriers receiving support for multiple lines in a household.[5] The proposal would provide continuing support for wireless service to all households. Yet, it would do so without perpetuating unnecessary and unreasonable support for multiple wireless lines for each household.

Qwest's proposals directly address the causes of significant recent increases in the high cost funds – specifically (1) the growth of the high-cost fund due to increased per-line support for rural carriers, and (2) the growth of the high-cost fund due to increased support to wireless carriers for multiple lines per household. Qwest's proposals directly and immediately address these current growth problems. AT&T's proposal to impose a line-count freeze on wireless carriers would serve to stem further growth in the number of lines for which wireless ETCs could receive support, but it only indirectly addresses the current problem of excessive support for multiple wireless lines per household. AT&T's proposal also does not address the growth of the fund created by rural ILEC line loss. While Verizon's plan directly caps the funds, over time it will quickly produce an increasing disparity between per-line support for wireless and wireline ETCs for the same high cost area, if the current trends in line loss/gains continue.

For longer-term reform, Qwest agrees with Verizon that high-cost support should be capped, but Qwest believes that the support should be re-targeted to high cost wire centers and

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Docket No. 96-45, 19 FCC Rcd 10812 (rei. Feb. 27, 2004), ¶ 78 (discussing need to control rural LECs' per-line universal service support upon entry by competitive ETCs). In 2000, total high-cost support to rural carriers was about 1.7 billion dollars. *Universal Service Monitoring Report,* prepared by Federal and State Staff for the Federal-State Joint Board on Universal Service, CC Docket No. 98-202 (2006), 3-13 & Table 3.1. In 2006, USAC estimated that support at just over $3 billion, *see id.*, and in 2007 USAC estimates that support will be over 3.2 billion dollars. USAC, *Federal Universal Service Support Mechanisms Fund Size Projectionsfor the Second Quarter 2007,* January 31,2007, pp. 4-9. A rural ILEC's high-cost support is derived from its embedded costs. Because non-rural support is based on forward-looking costs, the same effect of increased support due to line loss is not present.

[5] AT&T has noted that "over 13% of supported wireless CETC lines are in households that have at least three such lines, and over 8% are in households with *four* such lines." Letter from Robert W. Quinn, Jr., AT&T to Commissioners Tate and Baum, March 22, 2007, page 2, n. 5 (emphasis in original).

redistributed prior to capping the fund. Qwest agrees with Embarq and Windstream that the Joint Board should "recommend forward-looking and rational universal service reforms that target adequate explicit support to high-cost areas. To do otherwise, would perpetuate the inequities and insufficiencies in the current mechanism to the detriment of rural consumers and the nation."[6]

In addition, if the Joint Board and Commission are interested in moving forward with a form of reverse auctions for distributing high-cost support, Qwest agrees with Verizon that it makes sense to start with auctions for wireless CETCs in areas in which multiple wireless CETCs currently operate 2nd receive support. This would provide 2 meaningful test of the reverse auction concept as a tool in limiting and apportioning high cost support.

Qwest believes that the Joint Board and the Commission need to accomplish comprehensive reform of the high-cost fund and the universal service program as a whole as soon as possible. Nevertheless, it appears that more time is needed to achieve that significant reform. Addressing the unbridled growth of the high-cost fund, however, can no longer wait. Steps to contain that growth should be taken now.

Sincerely,

/s/ Melissa E. Newman

[6] Letter from Eric N. Einhorn, Windstream, to Deborah Taylor Tate, FCC and Ray Baum, Oregon Public Utility Commission, WC Docket No. 05-337, filed April 2, 2007, p. 3. See *also* letter from David C. Bartlett and Jeffrey S. Lanning, Embarq, to Deborah Taylor Tate, FCC and Ray Baum, Oregon Public Utility Commission, WC Docket No. 05-337, filed April 12, 2007.